



Agenda Date: 6/23/04
Agenda Item: 4B

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF Z-TEL
COMMUNICATIONS, INC. FOR AUTHORITY TO
PROVIDE ITS SECURITY IN CONNECTION WITH
NEW FINANCING.

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TELECOMMUNICATIONS

ORDER OF APPROVAL

DOCKET NO. TF04030186

(SERVICE LIST ATTACHED)

BY THE BOARD:

Z-Tel Communications, Inc., (Z-Tel or Petitioner), a public utility subject to the jurisdiction of the New Jersey Board of Public Utilities (Board), filed a petition on March 17, 2004, pursuant to N.J.S.A. 48:3-7 and 48:3-9, requesting approval to participate in the financing transaction of up to \$40 Million through establishment of a Secured revolving Credit Facility with Capital Source financing LLC, a Delaware limited liability company (the Lender). It is anticipated that the Credit Facility will be secured by the grant of a security interest in the assets of Petitioner, and its parent corporation, Z-Tel Technologies, Inc., as well as various other subsidiaries of Z-Tel Technologies, Inc. (collectively the Company or Borrowers).

Petitioner provides advanced, integrated telecommunications services targeted to residential and small business customers, including local and long distance telephone services in combination with enhanced communication features.

The terms of the Credit Facility are expected to be substantially as follows:

Lenders:	Capital Source Finance LLC.
Amount:	Up to \$40 million.
Maturity:	Three years after the date of the agreement.
Interest:	Prime but will not be less than 4.00% plus 1.75%.
Security:	All of Borrower's personal property assets and the proceeds and products thereof, including a pledge of subsidiary corporation shares.
Use of Proceeds:	It is intended that the net proceeds of the financing will be used

To refinance their existing debts and for working capital.

The financing arrangement will provide Z-Tel with the financial resources needed to continue to produce new products and services and respond to the highly competitive telecommunications environment.

Petitioner is a non-dominant telecommunications carrier and is not subject to rate of return regulation therefore its capital structure should not be a matter of concern to the Board. In addition, because of the highly competitive environment in which Petitioner operates, the rates charged to its customers are subject to market discipline and the services it offers are generally available from other carriers.

The Board staff's review indicates that the Credit Agreement is in accordance with the law and that the use of the proceeds associated therewith is appropriate. Moreover, while there is no guarantee in this regard, especially given the competitive environment in which Petitioner operates, the Board is satisfied that the transactions will not have an adverse impact on Petitioner's operations in New Jersey.

The Ratepayer Advocate has reviewed this matter and recommends the Board approve this petition.

After review the Board FINDS that the transaction to be made will be in accordance with the law, is in the public interest, and approves the purposes thereof. Therefore, the Board HEREBY APPROVES Petitioner's participation in the financing arrangements described herein.

This Order is issued subject to the following provisions:

1. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.
2. Petitioner shall semiannually file statements for the amount borrowed and, use of the proceeds and use of the credit facilities pursuant to N.J.A.C. 14:1-5.9 (b).
3. Notwithstanding anything to the contrary in the documents executed pursuant to the financing transactions or other supporting documents, a default or assignment under such agreement does not constitute automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq. where applicable.
4. Petitioner shall provide the Board within thirty (30) days copy of the executed Credit Agreement.

5. This Order shall not affect or in any way limit the exercise of the authority of this Board, or the State in any future petitions or in any proceeding with respect to rates, franchises, services, financing, accounting, capitalization, depreciation or any other matter affecting the Petitioner.

DATED: **June 24, 2004**

BOARD OF PUBLIC UTILITIES
BY:

SIGNED

JEANNE M. FOX
PRESIDENT

SIGNED

FREDERICK F. BUTLER
COMMISSIONER

SIGNED

CAROL J. MURPHY
COMMISSIONER

SIGNED

CONNIE O. HUGHES
COMMISSIONER

SIGNED

JACK ALTER
COMMISSIONER

ATTEST:

SIGNED

KRISTI IZZO
SECRETARY

Service List
I/M/O petition of Z-Tel Communications, Inc.
for Authority to provide its Security in Connection
with New Financing

BPU

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